

Message Text

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 8586

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E.O. 11652: GDS

TAGS: EFIN, UK

SUBJECT: SITUATION REPORT, DECEMBER 9

REF: (A) STATE 267168; (B) LONDON 19782

1. THE CABINET IS MEETING AGAIN THIS MORNING ON THE ECONOMIC MEASURES TO BE TAKEN IN CONNECTION WITH THE \$3.9 BILLION IMF LOAN. THE FINANCIAL TIMES EXPECTS THAT THIS CABINET MEETING WILL BE THE LAST, AND SAYS "IT IS CLEAR THAT THE CABINET HAS REACHED AT LEAST PROVISIONAL AGREEMENT ON NOT ONLY THE BROAD ORDERS OF MAGNITUDE BUT ALSO THE DISTRIBUTION OF THE PUBLIC SPENDING CUTS AND OTHER MEASURES." IT IS EXPECTED THAT HEALEY WILL BE ABLE TO MAKE A PUBLIC STATEMENT NEXT WEEK.

OUR IMPRESSION, BASED ON PRESS AND OTHER SOURCES, IS THAT THE CABINET IS INDEED FOCUSSED ON A PACKAGE OF ECONOMIC MEASURES RELATED TO THE IMF LOAN THAT INCLUDES SALE OF 500 MILLION POUNDS WORTH OF BP SHARES, AS WELL AS EXPENDITURE CUTS OF 1 BILLION POUNDS. WE PRESUME SAVINGS OF 500 MILLION POUNDS ON INTEREST PAYMENTS WILL ALSO BE LISTED AS PART OF THE PACKAGE. IT ALSO APPEARS LIKELY THAT HEALEY WILL BE ABLE TO
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ANNOUNCE AGREEMENT IN PRINCIPLE TO DEAL WITH THE STERL-

ING BALANCES AT THE TIME HE REVEALS THE PACKAGE OF ECONOMIC MEASURES.

2. FOREIGN EXCHANGE AND FINANCE. EMPHASIS IN THE GILTS SHIFTED TOWARD THE SHORT AND MEDIUM SEGMENTS OF THE MARKET WHERE FRACTIONAL RISES WERE RECORDED. PRICES FELL 1/8 IN THE LONG END AS THE MARKET AWAITED NEXT WEEK'S DEALINGS IN THE NEW LONG TAP STOCK.

THE FT INDEX OF 30 INDUSTRIALS CONTINUED ITS UPWARD TREND RISING 5.2 TO 325 ON STRONGER VOLUME.

STERLING WAS UNCHANGED AGAINST THE DOLLAR, CLOSING AT \$1.6715 WEDNESDAY. THE TRADE-WEIGHTED DEPRECIATION OF STERLING WIDENED TO 44.7 FROM 44.6 PERCENT. GOLD ROSE \$2.00 ON THE STRENGTH OF THE IMF GOLD AUCTION. ON THURSDAY THE POUND OPENED AGAIN UNCHANGED, AT \$1.6715.

ARMSTRONG

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